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ABSTRACT

This report presents testimony before the House Ways and Means Committee on issues affecting low-income children and their families, offered by the executive director of a nonprofit organization that conducts research and analysis on a range of public policy issues affecting low- and moderate-income Americans. The testimony reviews recent trends in child poverty, which indicate that about 20 percent of children were poor in 1989, that children of all ethnicities are affected, and that the problem is serious in rural as well as urban areas. Results of a study of eight industrialized countries have indicated that the United States had the highest child poverty rate. The testimony discusses the effects of the economic downturn on poverty rates among children, and examines the influence of the following factors on increased poverty: (1) falling wages; (2) demographic change; (3) the weakening of the safety net for poor children and their families; and (4) the growth of economic disparities. The weakening of the safety net through changes in Federal and state policies in recent years is analyzed in some detail. The testimony surveys the adverse effects of increased child poverty and concludes with a discussion of areas where significant policy response and reform are needed. (AF)

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TESTIMONY OF ROBERT GREENSTEIN
DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES
before the
HOUSE COMMITTEE ON WAYS AND MEANS*

March 13, 1991

I appreciate the invitation to appear before the Committee today. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities in Washington, D.C. The Center is a non-profit organization that conducts research and analysis on a range of public policy issues affecting low and moderate income Americans. The Center's work is funded primarily by foundations.

In my testimony today, I would like to focus on issues affecting low income children and their families.

Recent Trends in Child Poverty

Poverty remains at high levels in our country. In 1989, the seventh year of the economic recovery, the poverty rate was higher than in any year of the 1970s — including the deepest recession years of that decade.

The poverty trends for children are even more troubling. About 20 percent of all children were poor in 1989, a higher child poverty rate than in any year from 1966 to 1980. Among minority children, poverty rates are about twice as high. Over the past two decades, poverty rates have risen more sharply for children than for any other group. Poverty rates have risen among white, black, and Hispanic children alike. (Three of every five poor children are white.)

Census data also show that both the number of white children and the number of black children who fall into the group that might be termed the "poorest of the poor" — those whose families have incomes below *half* of the poverty line — have grown particularly sharply. From 1979 to 1989, the number of white children falling into this category rose 36 percent. The number of black children in this category rose 52 percent.[1]

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* This version of the testimony was slightly revised in April 1991.

[1] The years 1979 and 1989 are compared here because both represent peak years of economic recoveries.

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It is also of note that despite a frequent media focus on the inner city, poverty has grown as fast in rural as in urban areas and is higher in rural than in metropolitan locations. In 1989, nearly one of every six Americans living in nonmetropolitan areas — 15.7 percent — was poor, according to the Census data. About one in eight residents of metropolitan areas — 12.0 percent — was poor. (If metropolitan areas are separated into cities and suburbs, the poverty rate for the cities was 18.1 percent.)

Child Poverty At Home and Abroad

Important new research has been published in the past two years comparing child poverty rates in eight industrialized countries, including the U.S. An international team of distinguished researchers, including researchers from the Census Bureau, conducted this work.

Their findings are unsettling. They show that of the eight nations in the study — Australia, Canada, Great Britain, Norway, Sweden, Switzerland, the U.S., and West Germany — the U.S. had the highest child poverty rate. By contrast, Canada's child poverty rate was only about half as high as ours.

The study also found the poverty rate just among *white* children in the U.S. was higher than the poverty rate for *all* children in every other country studied except Australia. And the researchers found that if the proportion of children living in single-parent families had been the same in all countries, the U.S. would still have a greater child poverty rate than all the other countries but Australia.

In publishing their initial findings in *Science* magazine, the U.S. researchers noted these results had implications for the quality of the future U.S. work force. They wrote: "...the poverty of our children today may affect our long-term competitiveness with other wealthy countries who tolerate much less child poverty than does the United States."

This statement is reminiscent of one of the conclusions of *Children in Need*, a landmark volume issued a few years ago by the more than 200 corporate executives and educators who make up the Committee for Economic Development. That report declared:

> "This nation cannot continue to compete and prosper in the global arena when more than one-fifth of our children live in poverty and a third grow up in ignorance. The nation can ill afford such an egregious waste of human resources. Allowing this to continue will not only impoverish these children, it will impoverish our nation — culturally, politically, economically."

The Economic Downturn and Increased Poverty

The poverty data I've just cited pertain to years of economic recovery. Unfortunately, the economy is now in a recession, which means that poverty is rising to higher levels. The historical data show that when unemployment climbs, poverty virtually always rises with it.

Hopefully, the recession will end by mid-year, although this is quite uncertain. But even if it does, unemployment — and poverty — will likely remain at elevated levels for some time. In conversations I've had recently, I've found many people misunderstand what it means for a recession to "end." The point at which a recession ends is the point at which the economy is at its lowest ebb, not the point at which the economy has fully or partially recovered. A recession is said to "end" when the economy hits bottom, stops contracting, and starts to grow again. Normally, this is when unemployment is highest.

The Administration's economic forecast bears this out. Under the Administration forecast, the average unemployment rate will be slightly *higher* in FY 1992 than in FY 1991. Moreover, the Administration forecast indicates it will not be until 1993 that the unemployment rate returns to the level at which it stands today.

This means still higher poverty rates among children for the next few years. This problem is aggravated further by the fact that the nation entered the current recession with a weaker unemployment insurance system that at any other time since the end of World War II. Only about one-third of the unemployed were receiving unemployment benefits in an average month prior to the onset of the recession. (This issue is discussed in further detail below.)

Factors Behind the Increased Poverty Rates

There appear to be at least four broad factors associated with the general increases in poverty rates among children and their families over the past two decades.

First, wages have fallen. The average hourly wage for private, nonsupervisory workers is now lower, after adjustment for inflation, than in any year since at least 1969. In addition, the minimum wage — which was sufficient to raise a family of three out of poverty in most of the 1960s and 1970s if a parent worked full-time year-round — now leaves a three-person family with a full-time worker $2,300 below the poverty standard. Wages have fallen particularly sharply for younger workers without a college education.

This decline in wages contributed to an increase in the ranks of the working poor. From 1979 to 1989, the poverty rate among families that have children and in which the family head works increased sharply, rising by one-fourth.

A second factor has been demographic change. Female-headed families have much higher poverty rates than two-parent families do. In recent decades, the proportion of families headed by a single female — and the proportion of children growing up in such families — has risen substantially.

I would note that important as this factor is, it does not explain most of the increase in poverty over the past decade. In 1979, some 36.1 percent of all poor people — and 47.1 percent of the poor who live in families — lived in a female-headed family. In 1989, some 37.0 percent of all poor people, and 48.5 percent of the people in poor families, lived in such a family. Demographic trends are important, but they explain a modest fraction, rather than the preponderant share, of the increase in poverty over the period in question.

A third factor is the weakening of the safety net for poor children and their families at state as well as federal levels. Since the status of the safety net is an area the Committee requested that I address, this issue is discussed in more detail below.

A final factor derives in part from the first three. It is the growth in income disparities — and the increasing tendency of the economy to distribute the gains of economic growth more unevenly than in the past.

During the 1950s and 1960s, the benefits of economic growth were distributed across the income spectrum, with low and middle income families receiving a sizeable share of the gains. Income disparities moderated during these years. In the 1970s, however, income disparities began widening, and in the 1980s, this trend accelerated.

An analysis prepared last year by the Congressional Budget Office projects that from 1980 to 1990, the average after-tax income of the poorest fifth of families fell 5.2 percent after adjusting for inflation — and the average income of the bottom tenth fell 10.4 percent. Among families in the middle fifth of the income spectrum, average after-tax income rose a slight 2.7 percent. But the average after-tax income of families in the top fifth climbed 32.5 percent, and the average after-tax income of the richest one percent of families increased 87.1 percent.

In fact, the growth in the incomes of the wealthiest Americans has been so large that just the *increase* between 1980 and 1990 in the after-tax income of the richest one percent of the population equaled the *total* income of the poorest 20

percent of the population in 1990. In other words, the increase in the after-tax income of the richest 2.5 million Americans between 1980 and 1990 equalled the total income the 50 million Americans with the lowest incomes received in 1990.

The CBO data also show that income disparities have widened between the wealthy and the middle class. In 1990, according to these data, the top fifth of the population received as much after-tax income as the other 80 percent of the population combined.

The Weakening of the Safety Net

One factor of particular concern is the weakening of the safety net. Changes in federal and especially state polices in recent years have resulted in some lessening of the protection the safety net provides, particularly for poor children and their families.

Census data show that in 1979, some 19 percent of families with children who were poor before receipt of government cash assistance were lifted out of poverty by that assistance. In 1987, the latest year for which the Census Bureau has published these data, 10.5 percent of such families were lifted from poverty by cash assistance.

This comparison has sometimes been criticized on the grounds that it does not include non-cash benefits that poor families use for ongoing consumption, such as food stamps and housing subsidies. However, examination of an alternative measure of the poverty-reducing impact of government programs — a measure that includes the effect of food and housing benefits and the earned income tax credit — tells a similar story. The alternative measure, prepared by the Congressional Budget Office and based on Census tapes, shows that 36.6 percent of the people in families with children that were poor before receipt of government assistance were lifted from poverty by cash, food, housing, and tax benefits in 1979. In 1988, however, only 23.6 percent of the people in such families were lifted from poverty by government assistance. (These data reflect the impact of state and local assistance programs, as well as federal support.)

The deterioration in the anti-poverty impact of the safety net affected both two-parent and single-parent families, although single-parent families were affected more severely. The CBO analysis shows that 33 percent of the people living in two-parent families that were poor before receipt of benefits were lifted from poverty in 1979. By contrast, some 24.4 percent were lifted from poverty in 1988. Among single-parent families, 39.7 percent of the people in families that were poor before receipt of government assistance were lifted from poverty in 1979, while only 22.8 percent were lifted from poverty in 1988.

What happened to cause these changes in the safety net? Several developments figure here, but none appears more important than the sharp decline in the purchasing power of AFDC benefits. From 1970 to 1990, AFDC benefits for a family of three with no other income fell 39 percent in the typical (or median) state, after adjusting for inflation. (From 1980 to 1990, the decline was 18 percent.) Even if food stamps are factored in, combined AFDC and food stamp benefits fell nearly 25 percent during the 1970 to 1990 period. In a number of states, combined AFDC and food stamp benefits are back down to or below the level of AFDC benefits alone in 1960.

These changes in AFDC had several dimensions. The sharp decline in AFDC benefit levels resulted in a substantial decline in AFDC income eligibility limits. Federal reductions in AFDC in the early 1980s, which were aimed principally at single-parent working families with low incomes, served to reduce income limits further for such families. The results have been quite striking.

For example, in 1980, a single-parent family of three with wages equal to 75 percent of the poverty line could qualify for some AFDC benefits to supplement the family's earnings — and lift the family closer to the poverty line — in 42 states. In 1990, such a low income working family qualified for AFDC in just nine states.

Similarly, the ratio between the number of poor children and the number of children on AFDC has fallen precipitously. In the years from 1972 to 1978, there were an average of 75 children on AFDC for every 100 children below the poverty line. In 1988, by contrast, there were 59 children on AFDC for every 100 in poverty.

Moreover, a recent analysis published in a Ways and Means Committee print shows that in 1990, a mother with two children who earned wages equal to half the poverty line received total income — from wages, AFDC, food stamps, and the earned income credit — that was $3,200 lower than the income she received in 1970, even though the earned income credit had not yet been created in 1970. The results are nearly identical for a working mother with two children whose wages equal 75 percent of the poverty line, close to the minimum wage level for full-time work in 1990. Such a family received $3,150 less in total income in 1990 than in 1970.[2] In both cases, all of the loss was due to declines in AFDC benefits.

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[2] All figures are adjusted for inflation.

In short, the nation has reduced AFDC benefits sharply in recent years, without putting much in their place. This is one of the principal reasons poverty among children has risen — and that the proportion of poor children falling below half of the poverty line has increased even more.

Another significant change in the safety net that involves a program under the Committee's jurisdiction is the contraction of the unemployment insurance program. For five of the six years from 1984 to 1989, the proportion of the unemployed receiving unemployment insurance benefits set a record low. No more than 34 percent of the unemployed received benefits in an average month in each of these years. In 1990, some 37 percent of the unemployed received benefits but this, too, was a record: it represented the lowest proportion of the unemployed to receive benefits in any year that included the start of a recession.

Studies by Wayne Vroman of the Urban Institute and other unemployment experts have demonstrated a direct link between the contraction of the unemployment insurance system and increases in poverty, especially among the long-term unemployed. (The long-term unemployed are those who are out of work more than half a year and continuing to look for employment.) This represents another area where the weakening of the safety net has led to increases in poverty among families and children.

The declines in unemployment insurance coverage appear to have had one other effect, as well. They appear to be contributing to larger-than-expected increases in AFDC and food stamp caseloads during the current recession. Recent studies in Maryland, New York, and Arizona have found that a large share of the new AFDC families have recent and consistent work histories. The study in the Phoenix area found that a majority of new AFDC families had never been on welfare before. The Maryland study found that a majority of the new AFDC applicants who had been laid off or fired in the previous six months were not receiving unemployment insurance. If more of these families were in the unemployment insurance system, fewer would be on welfare.

(These studies also suggest that some new AFDC applicants may be eligible for unemployment insurance benefits but may not realize it and may fail to apply. This indicates it might be helpful for state welfare departments to obtain a one-page UI fact sheet from the state unemployment office, with the fact sheet explaining the conditions under which people who worked part-time or part-year before losing their jobs can qualify for UI. State welfare offices could then distribute this fact sheet during AFDC in-take interviews to AFDC applicants with recent work histories.)

Effects of Increased Child Poverty

Poverty has many adverse effects on children. Poor children have higher infant mortality rates, are more likely to have been born with a low birthweight are less likely to be immunized. They are also more likely to lack health insurance and to fail to receive adequate pediatric care.

In addition, they are less likely to complete high school and to score adequately on basic skill tests.

Poor children are also more likely to be at risk of homelessness and hunger. In this regard, findings from a large research project known as the Community Childhood Identification Project (or CCHIP) are significant. Under this project, surveys have been conducted in low income areas in several states to measure the incidence of hunger among children. CCHIP employs a more scientific measure of hunger than previous hunger surveys; the measure used consists of questions about such issues as the resources available for a family to buy food, the adequacy of the food consumed by children and other family members, and whether the family runs out of money for food or cuts down on meals. A number of these questions have been incorporated into the National Health and Nutrition Examination Survey conducted by the National Center for Health Statistics. The CCHIP survey also collects data on the association between hunger and such factors as child health and school absenteeism.

CCHIP data from surveys in seven states have now been released. The percentage of low income families with children who were hungry at some point during the past 12 months ranged from 25 perent in Long Island, New York to 42 percent in Hartford, Connecticut. At six of the seven sites, at least two-thirds of the families surveyed were either hungry or at risk of hunger because of lack of resources to buy food. The researchers conducting these surveys have estimated that if the findings from these seven sites were to hold true nationwide, this would mean 5.5 million U.S. children are hungry, with 11.5 million children either being hungry or at risk of hunger.

Hungry children in all survey sites were at least twice as likely as other children to suffer from health problems such as unwanted weight loss, fatigue, headaches, irritability, inability to concentrate and frequent colds. Children reporting these health problems also reported much higher rates of school absenteeism.

Areas of Policy Response

These problems suggest a significant policy response is needed. This is true not just for reasons of social compassion, but for reasons of basic economics.

We live in an increasingly global economy in which the quality and productivity of our workforce will be a major determinant of our economic standing in the decades to come. The extent of poverty, inadequate health and nutrition, and limited education and basic skills among a substantial proportion of the children growing up today threatens to become a significant drag on the economy in future years.

These problems are likely to exact a larger economic toll in the years ahead than in the past. From the late 1960s through the early 1980s, large numbers of children from the baby boom generation entered the labor force, as did many women. This enabled employers to be more choosy about whom they hired. Today, however, the period of rapid labor force growth is behind us. Labor Department projections show there are expected to be 10 million fewer entrants into the labor force in the 14-year period from 1986 to 2000 than there were in the previous 14 years from 1972 to 1986. Increasingly, our economy needs every well-educated, highly-skilled worker it can find. Having millions of children grow up in poverty — often with inadequate health care, nutrition, and education — is likely to prove damaging from an economic standpoint.

Accordingly, policy responses are needed on a number of fronts. We should strive to strengthen child support enforcement and collections greatly; we should also seriously consider establishing a child support insurance system. Such a system would be tough in extracting payments from absent fathers, while also establishing an "insurance" level below which support payments for children could not fall.

In addition, I would urge consideration of converting the personal exemption for children into a refundable tax credit. This has a major advantage over a simple increase in the personal exemption, since increasing the exemption confers twice as large a benefit on many wealthy families as on those at modest income levels and does nothing at all for working poor families with children.

We should also intensify efforts to reduce infant mortality and immunize more children, and should do so without cutting back on basic health care services for other low income women and children.

Several pieces of legislation now before Congress would be helpful in addressing problems facing disadvantaged children, including the Family Preservation Act and the Unemployment Insurance Reform Act, introduced earlier

this week. I believe passage of the Mickey Leland Childhood Hunger Prevention Act, introduced last month by Reps. Leon Panetta and Bill Emerson, would also be important. An earlier version of this legislation passed on the House floor last August by a 336-83 margin, with majorities of both parties supporting it. This legislation would make changes in the food stamp program that would have the effect of improving the operation of several programs under the Ways and Means Committee's jurisdiction; the legislation would reform provisions of the Food Stamp Act that currently reduce incentives for single-parents on AFDC to help track down and collect child support from absent fathers. The legislation would also conform various child care and other provisions of the Food Stamp Act more closely with those of the JOBS program created by the Family Support Act.

Some review of the operations of the Family Support Act itself would also be useful. For example, there are several areas where unintended consequences of the law or the regulations may be unduly restricting state flexibility — and preventing states from making the most efficient use of available resources to create effective welfare-to-work programs.

In addition, I would urge consideration of some modification of the important Earned Income Tax Credit provisions enacted last fall. These provisions appear too complicated. Starting next year, low income working families will have to complete an EITC schedule to obtain the EITC payments they have earned. This is a new requirement; in the past, eligible families needed only to file a tax return, and IRS would compute their EITC payment for them. Thus, it is important that the new schedule be simple to understand and complete. IRS officials with whom I have spoken, however, believe the provisions of the new law make it difficult to design a schedule that is not somewhat complex. If the Committee takes up tax simplification this year, simplifying the EITC should be on the list.

These are some examples of the types of policy reform I would urge the Committee to consider. This is not intended to be an exhaustive list.[3] The basic message is that action on a substantial scale will be needed to address the serious conditions that disadvantaged children face.

Overall, we should strive as a nation for a substantial reduction in child poverty, and for interventions to improve the chances for disadvantaged children

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[3] For example, this testimony does not address issues involving discretionary programs outside the jurisdiction of the Ways and Means Committee. As the Committee for Economic Development recommended in its recent report, attaining full funding for several effective early intervention programs for disadvantaged children, such as WIC and Head Start, would represent important steps to help poor children have a better opportunity to attain their full potential.

to attain their full potential. We should do this in a manner that strengthens basic values of family, parental responsibility, work, and equal opportunity. By so doing, we will be building essential human capital for the future and benefitting our overall economy, and thereby helping to safeguard the living standards of the average American family in the next century. After all, those who are children today or who will be born in the remaining years of this century will constitute a large proportion of the work force that must sustain our nation through the first half of the 21st century.